

Footnotes

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Letter from the President...

Dear Members,

Don't you just love this time of year? It feels like winter but it's still fall for a few more weeks. Take a moment and appreciate all of the things that made the fall, and



Thanksgiving special. As your cycling-nut friend, I have to mention a new fall passion: Cyclocross! I can't resist sharing the excitement. The sport is still relatively new in the US but it's quickly gaining in popularity, especially in Colorado. Local cities and towns are having events this time of year as the Cyclocross season is reaching its peak. Riders compete over multiple laps on short courses of a mile or two that feature dirt and grassy trails, steep hills and obstacles that require the riders to mount and dismount their bikes, all in the cold and the wet (even snow). Sounds like fun, right? A Cyclocross bike is a "cross" between a road bike and a mountain bike. I recently competed in a race in Broomfield. I crashed in a mud pit and came in 35th place, but I loved it, even though my car got stuck in the mud too!

This time of year is a great time for government finance, too. Those of us with a calendar-year-end have finished off our budgets, and we're gearing up for year-end close. And those of you with a mid-year-end are busily finishing your audits and related reporting. All of us are thinking more about what we want to accomplish in 2016. A number of Colorado governments had election questions with financial implications and this year's vote was as meaningful as ever. As your President, I've been engaged in a number of things that advance our profession. This quarter, I've had the opportunity to speak at the Colorado Society of CPAs Government Conference and the Annual Conference of the Colorado Municipal Judges Association. These engagements are an opportunity to communicate the value that all of us bring to local communities and the state of Colorado. I spoke of our challenges in administering financial policies, increasing regulation, and the changes in demographics, technology, and consumer behaviors that affect our communities. I've also participated in the CML's Policy Committee which intends to address a number of government finance matters in the coming legislative session, once again related to urban renewal finance and sales tax administration.

GEORGE A. Nielsen Public Investor Scholarship

Congratulations to Vesta Weinhauer, a Treasury Analyst with the City of Arvada. Vesta is the 2015 recipient of the George A. Nielsen Public Investor Scholarship. Vesta was born and raised in Belarus, which at that time was a part of the former Soviet Union. While in college she had an opportunity to come to the United States where she graduated from the University of Colorado - Denver, with a Bachelor of Science in accounting. Vesta began as an accounting technician with the City of Arvada in 2011 and continued to move up into her current position as Treasury Analyst, which she has held since August of 2014. Vesta's short-term goal is to become an Investment Manager at the City of Arvada. In 2014 Vesta enrolled in the graduate program at Colorado State University Global, to pursue a Master's in Finance. Congratulations, Vesta, we hope the scholarship will help you continue in your pursuit of education.

Call for Presentations

The CGFOA Education Committee meets on January 15 to plan education programming for the year AND the Annual Conference. If you are interested in making a presentation please submit the following:

Title and Synopsis of the Presentation
Speaker(s) Name(s) and Qualifications
Length of time desired: 1 Hour Conference Session, 1.75 Hour Conference Session, 3.5 hour annual education half-day, or 7 hour annual education full day.

For consideration please submit proposals to administrator@cgfoa.org by January 1, 2016.

Letter from the President (continued)

Fall is also the time of CGFOA's main event: the Annual Conference. Over 500 people were in attendance, and I enjoyed seeing all of you there. The education committee worked hard to organize an outstanding slate of successful sessions and there were a number of networking opportunities that brought us all together in a meaningful way. The City of Loveland and its finance officers really worked hard to show off their terrific city and their passion for our profession. Thank you to the Loveland team and to all of our education committee members and our co-chairwomen. Education and networking is our mission and this conference did not disappoint. Thank you to all of you who gave so generously at the conference to those in need in the Loveland community. As President, I reflected on all of the things that I had the honor to do, over the last year. I had the excitement of announcing our Finance Officer of The Year, Bob Eiche, CFO at the City of Boulder. I got to moderate a few conference sessions including the introduction of an FBI Supervisory Special Agent. I had the opportunity to represent you across the state and with the national association in matters of policy and strategy. Above everything, my clearest reflection is one of thanks. Thank you for giving me the opportunity to serve as President during 2015, I will carry this experience with me always.

*A pessimist sees the difficulty in every opportunity;
an optimist sees the opportunity in every difficulty.*

Winston Churchill

Winter is nearly here and in just a few weeks, the days will start getting longer and the nights shorter. If you didn't get a chance to see this year's changing of the leaves, I had the chance to take this picture in the Leadville area which reminds me of meeting great challenges. I took this shot as I rode my bike on the very challenging Columbine Mine ascent which rises to over 12,000 feet. It was a difficult and challenging ride. Yet, it was rewarding and fulfilling in so many ways; an "opportunity in a difficulty." I challenged myself to



ride all of the steepest sections without stopping, yet once I reached the top I took a moment to enjoy the view and reflect on the accomplishment. Choose one area of your personal or professional life and push yourself just a little harder than you think is possible. You'll feel better about yourself, and over time you'll get better at whatever it is you're doing. I'm excited to welcome our new Directors and Officers to the board of the CGFOA, and I applaud them for challenging themselves to do a little bit more.

Here's wishing you all the best for the coming winter season and loads of good cheer for the holidays.

With sincere thanks,
 Larry Dorr
 City of Lakewood
 CGFOA President 2015

The Importance of Internal Controls | Internal Audit in Governments

The following is the second part of a two-part series on Internal Controls and Internal Audit in Governments. The first part was printed in the August CGFOA Footnotes.

Part Two: The Importance of Internal Audit in Governments

It is a commonly held notion that “auditors” are out to “find things that are going wrong”. While auditors do often identify issues that require improvement many do not understand that an auditor can add value to an organization in numerous ways beyond “finding things that are wrong” – this is particularly true for internal auditors (IA)!

Whereas external auditors tend to be primarily concerned with the “material” accuracy of the financial statement presentation (among other things); a quality IA function is afforded the time and freedom to identify and help prevent more of the “immaterial” errors (unintentional and intentional) thru a more thorough risk assessment process, in-depth development of internal control systems, and through regular, meaningful, independent reporting to governance.

Skilled IAs, trained to use modern techniques – like continuous monitoring (CM) or continuous auditing (CA) – are revolutionizing the way modern organizations think about IA through their use of software in analyzing opportunities, implementing recommendations on optimizing business operations, streamlining systems and processes, and ensuring compliance with all federal, state, and local agencies. Whereas conventionally IA meant periodically testing a sample of 100, modern techniques allow for, as the name implies, continuous testing – which yields solutions and corrections much more quickly.

When it comes to fraud, internal controls (IC), and IA – the proof is in the pudding! In 2014, the Association of Certified Fraud Examiners (ACFE) reports that the initial detection of fraud occurred via: tip hotline - 42%, management review (an internal control) – 16%, internal audit – 14%, account reconciliation (an internal control) – 7%, IT internal controls – 1%, other – 17%, and the annual external audit, a meager 3% of the time. These metrics clearly highlight the importance (42%) of an anonymous tip hotline in organizations, yet at the same time points to the fact that IC or IA account for 38% of fraud identifications -- the 2nd most common source of initial identifications. This begs the question: should organizations reallocate more resources to internal or external audit functions?

One common misconception is that the organization is too small or doesn't need an IA. This is an outdated thought mired with thoughts of maintaining an expensive IA department. In today's world, IAs can reside in-house or can be affordably outsourced to any qualified auditor or CPA firm (usually, by definition, separate from your own external auditor). While the median fraud still only amounts to \$145,000; 22% of frauds were over \$1 million (as reported by the ACFE). Another ACFE observation: governments were the 2nd most common sector to experience fraud, behind only the bank/financial institution sector. By these measures, IAs are a bargain.

A few questions to gauge your organization's internal audit (IA) function:

- What, if any, IA functions does your organization deploy? Although complex to universally answer, is your audit function adequate for your organization's needs?
- Is there an anonymous tip (or fraud) hotline available to employees? According to the ACFE, 42% of fraud cases were identified by tips.
- Does your software allow for modern IA techniques like continuous monitoring (CM) or continuous auditing (CA)?
- Does your IA function just identify errors; or does it provide value-added auditing by continually reassessing risks and creatively addressing these by implementing or reengineering controls for optimal efficiency?
- Is your IA function a critical part of your organization's strategic planning team?
- Does your IA operate with independence by reporting directly to the governing board or are they buried underneath another department fearful of reporting unbiased results?
- Is your IAD established formally by charter, as recommended by the GFOA?
- Does your organization have a formalized audit committee (or, does your regular governing board adequately perform the functions of an audit committee)?

Another common misconception is that it is the external auditor's responsibility to catch fraud. I once was involved with a fraud and upon learning of the fraud, the shocked finance officer said "I don't understand, we had our annual audit". The reality is ICs and identification of immaterial fraud are the responsibility of the finance officers and every employee of the organization -- not the external auditors. The point is: a finance officer cannot solely rely on the annual audit to catch all errors -- the government must take an active approach to IC on a daily basis and implement a minimum level of IA. An external audit is not an internal control.

Even the GFOA recommends that every government should have some degree of IA: "Every government should consider the feasibility of establishing a formal IA function because such a function can play an important role in helping management to maintain a comprehensive framework of internal controls. As a rule, a formal IA function is particularly valuable for those activities involving a high degree of risk (e.g., complex accounting systems, contracts with outside parties, a rapidly changing environment). If it is not feasible to establish a separate IA function, a government is encouraged to consider either 1) assigning internal audit responsibilities to its regular employees or 2) obtaining the services of an accounting firm (other than the independent auditor) for this purpose." (<http://www.gfoa.org/establishing-internal-audit-function>)

1. Internal Audit Department (IAD) (Full-time): Hire one or more IA. IAs are "in house" employees of the organization; but usually report directly to the governing board to maintain independence. PROS: full-time ability to assess and mitigate risks; full-time ability to offer valued-added auditing by optimizing systems, processes, efficiencies by having the in-depth knowledge of the organization and utilizing relevant audit technologies; a separate IAD is independent to report results without fear of retribution from colleagues. CONS: full-time salary and benefits; and if the IA doesn't independently report to governing board the value is diminished.

2. Outsourced Internal Audit (Part-time): Engage a qualified IA (usually an independent CPA or CPA firm not related to your external auditor). Your outsourced IA will serve as your IAD at a mutually agreed upon level (roughly 5% to 50% of full-time equivalent). PROS: being able to vary your IA function based upon risks assessed while limiting costs; having a highly talented professional IA who knows your industry and can *best practice* solutions that have worked at other similar clients. CONS: not having a full-time "in house" IA to call upon for smaller projects which are outside the scope of agreed upon services.

3. Assignment of Internal Audit Responsibilities to Regular Employees: Assign IA tasks to a few trusted employees as part of their regular responsibilities. PROS: at least a minimum presence of IA in the organization to thwart basic perpetrators; some identification of errors and opportunities for improvement. CONS: regular employees put in a position of "auditing" their colleagues can hurt personal relationships in small organizations; least amount of value-added auditing; least amount of independent reporting of results.

4. Combination of #2 & #3: In some organizations, it is a feasible solution to combine various elements using regular employees to perform IA tasks under the direction, supervision, and independence of an outsourced IA firm.

The importance of IA is further highlighted by the level of its mitigating effects in fraud cases. While IAs, like external auditors, cannot eliminate frauds -- they can reduce the impact. The ACFE reports that the frauds occurring in organizations without IA averaged \$180,000 with a duration of 24 months; while frauds in organizations with IA averaged only \$103,000 with a duration of 14 months -- a \$77,000 (42%) reduction and 10 fewer months.

In conclusion, every organization (with or without an IA function) should reevaluate the costs and benefits of having some degree of IA. An IA function can be obtained at a reasonable cost and can provide numerous benefits and value to the organization beyond just “finding things that are wrong”.

Andrew Larson, CPA, a veteran internal control auditor and CAFR Reviewer, writes from Eagle-Vail, Colorado and his firm, CFO Systems, provides Fractional CFO & Controller services to organizations across Colorado and the Midwest. If you've found this article useful or for a free initial evaluation of your organization's internal controls, contact him at alarson@cfoystemsllc.com <https://www.linkedin.com/pub/andrew-larson-cpa/14/b11/ba0>

Finance Officer of the Year 2015

Congratulations Bob Eichem, CFO for the City of Boulder and Finance Officer of the Year for 2015! Bob has over 30 years of service to the Colorado Government Finance Officers Association and most recently served as the President of GFOA in 2014/2015. Bob has been the CFO for Boulder since 2005. Bob has been a leader of CGFOA in improving local government throughout Colorado. Bob encourages and supports his colleagues involvement in CGFOA as members of a variety of committees. In 2012, Bob led a team of professionals in analyzing the statewide 60-61-102 legislation which would have drastically reduced municipal revenues. He then spearheaded the charge in educating CGFOA members across the state. Additionally, Bob, along with others from National GFOA, educated congressional leaders in 2014 on the dire consequences of ending the tax exemption for municipal debt. That exemption remains in place today in large part because of the work Bob did with GFOA.

Bob's contributions to the profession throughout his career have been unsurpassed. He's consistently welcoming to anyone in the profession who is in need. Bob has a servant's heart and he consistently does the right thing. He has given of his time to travel the world as GFOA President this past year, and is only 2nd ever GFOA President from the State of Colorado. His service as GFOA President gives Colorado finance officers a voice on the national stage, both during his service as president and into the foreseeable future.

Congratulations, Bob, and thank you for your commitment to promoting the goals and ideals of GFOA and finance professionals in Colorado.

The CGFOA Finance Officer of the Year Award dates back to 1989 when George Nielsen was the first recipient. Other recipients include:

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|------|--------------------------|----------------------------|--|------|-----------------|---------------------------------|
| 1989 | George Nielsen | Deceased | | 2002 | Kathleen Morse | Retired |
| 1990 | Eric Johannisson | Retired - Evergreen | | 2003 | Donna Braun | Town of Silverthorne |
| 1991 | M. Patricia Schwartzberg | Retired - Denver | | 2004 | Mary Ann Parrot | California |
| 1992 | Bob Eichem | City of Boulder | | 2005 | Darrell Windes | Ken-Caryl Ranch Metro Dist. |
| 1993 | Marvin Thrasher | Deceased | | 2006 | Tammy Hitchens | City of Westminster |
| 1994 | Ann Zelnio | Boulder | | 2007 | Jeff Hansen | City of Golden |
| 1995 | Ron Duncan | Deceased | | 2008 | Larry Dorr | City of Lakewood |
| 1996 | Ron Lappi | Retired | | 2009 | Harry Patel | City of Canon City |
| 1997 | Leona James | Retired | | 2010 | Kathy Elmont | City of Ouray |
| 1998 | Chuck Green | Retired | | 2011 | Karin Slater | Montrose County School District |
| 1999 | Mike Hall | Retired - Colorado Springs | | 2012 | Debbie Murray | Mesa County Sheriff's Office |
| 2000 | Laurie Litwin | Teller County | | 2013 | Judy Dahl | Little Thompson Water District |
| 2001 | Jim Golden | City of Longmont | | 2014 | Cherie Sanchez | City of Westminster |

December, 2015

Hanukkah, Dec. 6-14. Beginning at sundown, this eight-day festival in the Jewish faith celebrates the triumph of light over darkness and the rededication of the Holy Temple (the Second Temple) in Jerusalem.

International Dalek Remembrance Day, Dec. 21. Celebrate the first appearance of the iconic villains from the "Doctor Who" TV show in December 1963. Their eternal slogan: "EXTERMINATE!"

Christmas Day, Dec. 25. Christian holiday celebrating the birth of Jesus Christ.

Kwanzaa, Dec. 26-Jan. 1. A celebration honoring African heritage and African-American culture, culminating in a feast and gift-giving. Created by Maulana Karenga, Kwanzaa was first celebrated in 1966–67.

Visit the Zoo Day, Dec. 27. Looking for something to do now that the holidays are winding down? Take the kids to the zoo!

January, 2016

New Year's Day, Jan. 1. Dust off those resolutions and get a fresh start on a new year.

National Bird Day, Jan. 5. Nearly 12 percent of the world's 9,800 bird species may face extinction within the next century. Public awareness and education about the physical and behavioral needs of birds can go far in improving the welfare of the millions of birds in captivity and in the wild.

Stephen Foster Day, Jan. 13. Commemorating the life and music of Stephen Foster, American composer whose songs, including "Camptown Races," "O! Susannah," and "My Old Kentucky Home," have become classics.

Martin Luther King Jr. Day, Jan. 14. National holiday celebrating the birthday of civil rights leader Dr. Martin Luther King Jr.

CGFOA Education Committee Meeting, Jan. 15. The annual January meeting of the CGFOA Education Committee will be held at the Summit County Commons, Buffalo Mountain Room starting at 9:00 AM. RSVP to administrator@cgfoa.org or karin.slater@mcsd.org

International Holocaust Remembrance Day, Jan. 27. This remembrance of the victims of the Nazi regime marks the anniversary of the liberation of the infamous concentration camp Auschwitz-Birkenau in 1945.

CGFOA 1st Quarter Networking Lunch and Board Meeting, Jan 29. The 1st Quarterly networking luncheon and Board meeting of the CGFOA will be held in Mead, exact location to be determined. This is a full day of meetings at which all are welcome. At 9:00 AM the 2015 Conference Committee meets for a final review and wrap up. At 10:30 the 2016 Conference Committee meets to begin the process of planning the 2016 Conference in Grand Junction. The free Quarterly Networking Lunch begins at 11:30 and the CGFOA Board meeting starts at 12:30. Please check the website Calendar of Events to RSVP for the luncheon and all or part of the meetings!

February, 2016

Groundhog Day, Feb. 2. If the groundhog sees its shadow, prepare for another six weeks of winter.

National Girls and Women in Sports Day, Feb. 5. A day where males and females focus on remedying past discrimination against women in sports, promoting the benefits of sports participation for girls, and addressing the myths that have kept both boys and girls from supporting girls' sports participation.

Valentine's Day, Feb. 14. Send your true love some flowers.

Frederick Douglass Day, Feb. 14. The accepted birthday of Frederick Douglass, a born slave who became a leader in the international abolition movement.

Presidents Day, Feb. 17. Celebrating George Washington, Abraham Lincoln, and other U.S. presidents through the years.

World Spay Day, Feb. 25. An annual campaign of the Humane Society of the United States to shine a spotlight on saving the lives of companion animals, feral cats, and others through spaying and neutering.

Letter from the Incoming President, Judy G. Dahl

Hello from Northern Colorado and Happy Holidays to you all. It was a fantastic 2015 Conference with record high attendance. I am excited that we continue to grow; however, as we grow our conference venues diminish. We will be reviewing our selected sites over the next few months to secure the necessary space to accommodate everyone.

I would also like to take this opportunity to thank the outgoing Board members for their dedication and contribution to CGFOA. Larry Dorr, outgoing President is very passionate about CGFOA. For the 2016 year he takes on the role of Past President. I will look to his experience to help me through next year. He has taken the year to connect with many members including some of those who were seriously injured. I commend Larry for his passion and dedication to CGFOA. Don Warn, Past President, Sandra Boster, Sherri Young, and Molly Kostelecky are leaving the Board; their contributions to the CGFOA organization have been invaluable. I hope they will stay connected and continue supporting our organization by volunteering for one of our many committees. I also want to thank our incoming board members, Vice President Jeff Edwards, Tax Audit Supervisor for the City of Aurora; Secretary Peggy Bunzli, Budget Officer for the City of Boulder; Board Member Catrina Asher, Finance Compliance Manager for Boulder County; and, Board Member Lore Nusser, Accounting Supervisor for Apex Park and Recreation District. Our continuing Board Members are Lisa Yagi, Assistant Finance Director for City of Arvada, and Dean Moyer, Director of Finance for the Town of Windsor. I think we have an excellent Board of Directors for 2016. Thank you all for being a part of CGFOA.

I hope that we have a successful year in our own local governments. We meet on January 15, 2016, in Frisco to set our training classes for the year, so get involved and come to the meeting. We hope you will have the time to participate in training classes throughout the year, as well as attend the 2016 conference in Grand Junction. We are planning on two Education Committee meetings in 2016. The one in January is to set the classes for education and conference and the one in April or the first part of May is for the moderators of both CGFOA and CMCA to finalize classes for the conference. We would ask that anyone volunteering to moderate a conference session be willing to commit to attending the second meeting.

We have education grants available for classes that take place during the year and we also have grants for the annual conference. Please take advantage if your organization needs assistance in sending you to classes or attending the conference. We also have new membership grants available, so please pass this great benefit along to anyone in your organization that you think would benefit by having a membership to CGFOA.

Thank you all for your support and I am honored to be your President for 2016.

Please call me if you have anything you would like talk about or you have any questions.

Judy Dahl, Business Manager
Little Thompson Water District
(D) 970-344-6305
(M) 970-692-4069
jdahl@ltwd.org



Judy Dahl and Jeff Edwards

Thank you to CGFOA's Outgoing Board Members!

A very special thank you to the following outgoing Board Members of CGFOA:

Sandra "Sam" Boster, Bear Creek Water and Sanitation

Sheri Young, City of Westminster

Molly Kostelecky, Metro Wastewater

Don Warn, Town of Parker

Each of these individuals has faithfully served CGFOA in a number of capacities over the past few years as officers, board members, and committee and task force members. CGFOA would not be the outstanding organization it is without the work of members like Sam, Sheri and Molly. Thank you for your many years of dedicate to CGFOA.

Welcome to CGFOA's Incoming Board Members!

And a hearty welcome aboard, to the newest Board Members of CGFOA:

Lore Nusser, Apex Part and Recreation District, serving as a Board Member

Catrina Asher, Boulder County, serving as a Board Member

Peggy Bunzli, City of Boulder, serving as Secretary

Jeff Edwards, City of Aurora, serving as Vice President

No doubt our new leadership will step in and lead the organization into 2016 with the same dedication and enthusiasm of our outgoing members. Thank you for your willingness to serve, we look forward to another great year in CGFOA!

Pictures from the Conference



Bob Eichem receiving the Finance Officer of the Year from his wife Becky!

Laser tag - not sure who won or lost, but a good time was had by all!





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It has been an exciting couple of years for local taxes in Colorado with recreational marijuana in 2014 and the start of a major project to standardize definitions for home rule cities in 2015. With all these changes there is plenty of opportunities to learn and grow and we are fortunate to have the volunteers on the CTAC Education Committee to plan the quarterly CTAC meetings. If you are interested in hosting a CTAC meeting or joining the Education Committee in 2016 please contact Jeff Edwards at jedwards@auroragov.org.

Have a wonderful and safe holiday season!

Thank you,

Jeff Edwards, City of Aurora
2015 CTAC Chair
2016 CGFOA Vice President

From the Administrator...

We missed publishing the October issue of Footnotes - my sincere apologies - the record setting attendance numbers for our incredible Annual Conference got in the way of all other responsibilities!

I want to take just a moment (and one small text box) to say thank you for another wonderful year in CGFOA. It is a privilege and a true honor to work with and for such a wonderful group of finance professionals from across the state of Colorado. I am blessed indeed, and as another year (my 20th with CGFOA) comes to a close I wish each of you a blessed holiday season and a prosperous new year!